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David Stockman says coronavirus is sparking a financial crisis, warns 'Wall Street is toast'

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Main Street may be more resilient than Wall Street during the coronavirus crisis.

Former Office of Management and Budget director David Stockman warns the pandemic is exposing risky speculation and shaky market fundamentals



“Wall Street is toast,” he told CNBC’s “[Trading Nation](#)” on Thursday. “It’s going to end as a financial crisis because the illusion that central banks always have your back and the economy would keep expanding and growing forever and ever ... was complete nonsense.”

Stockman, who served under President Ronald Reagan, has been forecasting an epic market decline for years.

Last March on CNBC, he blamed “[day traders, chart monkeys \[and\] robo machines](#)” for creating a dangerous market environment that lacked rationality and got flooded with overvalued stocks.

Even though there’s no way he could have predicted the coronavirus pandemic, he believes fiscal and monetary policy is not equipped to deal with the fallout.

“There are going to be bailouts,” Stockman said.

His base case is the [S&P 500](#) will fall to 1,600, a more than 50% collapse from the index’s all time high hit last month. The move would imply another 34% plunge from current levels.

“We’re going to have a recession. It’s going to be fairly prolonged,” he added. “Covid-19 is a severe supply side shock.”

Stockman contends help from the Federal Reserve won’t be effective.

“We need to let the stock market work. We need to get the Fed out of the way. We need higher interest rates not lower, so all this speculation can get cleaned out of the system,” he said.

On the fiscal side, Stockman suggests the country cannot afford the price tag to bail out the country. A fierce critic of President Trump, he contends the administration’s plan to hand out \$2,000 to every American is financially irresponsible and will only postpone an inevitable recession.

Longer-term, he suggests it’s unnecessary.

According to Stockman, 80% of America can get by during the vast business



savings deposits and \$1.3 trillion of checking accounts. He also cites a one trillion dollar safety net of unemployment benefits.

“Main Street will bounce back once the public health separation orders are relaxed in the months ahead,” Stockman said. “Main Street capitalism doesn’t have a death wish. Households and businesses will creatively find ways to cope and repair and replenish and restart.”

The White House did not provide a statement on Stockman’s remarks.

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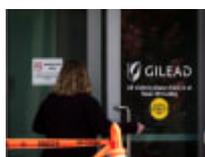
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